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RUEHTU/AMEMBASSY TUNIS 7119
RUEHTRO/AMEMBASSY TRIPOLI
RUEHNC/AMEMBASSY NOUAKCHOTT 6312
RUEHNM/AMEMBASSY NIAMEY 1546
RUEHBP/AMEMBASSY BAMAKO 0495
RUEHLO/AMEMBASSY LONDON 1784
RUEHCL/AMCONSUL CASABLANCA 3343
RHMFISS/HQ USEUCOM VAIHINGEN GE
RUEATRS/DEPT OF TREASURY WASHDC
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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000384

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [AG](#)

SUBJECT: SCARRED BY SCANDAL AND INEXPERIENCE, CENTRAL BANK
AUDITORS WIELD HEAVY HAND

REF: 07 ALGIERS 129

Classified By: Charge d'Affaires, a.i. Thomas F. Daughton;
reasons 1.4 (b) and (d).

11. (C) SUMMARY: The Bank of Algeria, worried that it will be perceived as soft on corruption and banking irregularities, has been carrying out an increasingly aggressive oversight campaign whose intentions may be pure, but whose results have frustrated and suffocated banking reform. Our contacts say that the central bank, which many Algerians perceive as having allowed the Khalifa banking scandal (reftel) to occur, is overcompensating by allowing its inexperienced auditors to criminalize even the most minute transaction discrepancies and to threaten bank presidents with imprisonment and fines of as much as USD 800 million. The new president of the Arab Banking Corporation has left Algeria, fed up with criminal procedures brought against his bank. Even a member of the national banking commission confided to us that the magistrates handling these cases "have no idea how to handle banks." While business goes on at a glacial pace, the result is a somber and frustrated mood in the banking sector, with banking executives feeling like scapegoats. END SUMMARY.

A CENTRAL BANK "POLICE MENTALITY"

12. (C) Rait Mokretar-Kerroubi, Assistant Director General of Arab Leasing Corporation (ALC) in Algiers, told us on March 18 that rather than create a viable system of risk management for the banking sector, the central bank "feels it exists to go after fraud." Because of the overly aggressive efforts of Bank of Algeria auditors to avoid appearing soft by allowing scandals to rock the banking sector, Kerroubi said, the banking reform environment is "dead right now." Kerroubi, whose ALC is partly owned by the Arab Banking Corporation (ABC), said that the central bank's auditing team has adopted "a police mentality" and is suffocating the banking sector with exhaustive audits and document searches, criminalizing even the slightest discrepancy along the way. According to Kerroubi, the sting of the Khalifa scandal still has not worn off, as Algerian efforts continue to extradite Rafik Khalifa, president of the defunct bank bearing his name, from the UK. Kerroubi said that all banks are suffering, but especially the ABC, Citibank and BDL. Kerroubi noted that the new president of ABC had left the country, fed up and worried

about having to spend time in an Algerian prison.

¶3. (C) The March 20 edition of Arabic-language Echourouk Online featured another banking scandal being pursued by a court in Algiers. According to the article, several executives of an unnamed public bank (there are no Algerian private banks) are suspected of embezzling roughly USD 20 million and routing the funds to a Swiss bank account. The article goes on to say that Bank of Algeria Governor Mohamed Laksaci was personally questioned for over an hour by the investigating magistrate. This latest story comes in the wake of another, in which the son of a former Algerian government minister allegedly embezzled USD 30 million from the Algerian-Kuwaiti Investment Fund before fleeing the country.

ONE YEAR AND 10,000 DOCUMENTS LATER

¶4. (C) On March 25, Citibank Algeria DG Kamel Driss and BNP Paribas Algeria DG Laurent Dupuch vented to us that while they were not planning to leave Algeria, they both "now wished they had chosen a different profession." Both Dupuch and Driss said that they are regularly called to appear personally before magistrates and central bank auditors in order to justify their handling of customs and documentation issues. The magistrates, according to Dupuch, do not accept lawyers or representatives, but insist on a personal appearance by the bank president every time. Driss said as an example that he and his team of lawyers spent 45 minutes on March 24 just trying to persuade a magistrate to allow Citibank to send a representative or lawyer whenever necessary, but to no avail. A frustrated Driss explained

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that banks "should never even be a part of these transactions" under normal circumstances, but that because of Algerian currency controls, banks must be present when their clients receive shipments in order to certify the availability and conversion of funds.

¶5. (C) In the case of Citibank, Driss illustrated the difference in auditing practices between central bank and professional bank auditors. He recalled that a team of 13 Citibank internal auditors spent two weeks in Algeria auditing selected and random files, per standard procedure. In contrast, six central bank auditors spent one year in Citibank's offices in Algiers examining "every single document we had," only to find nothing. Driss said that when all was said and done, the auditors had examined 10,000 documents and found nothing, an effort both he and Dupuch agreed was "amateurish and inefficient." Driss also told the story of Citibank client Mittal, for whom Citibank and Driss himself spent over a year in litigation with the central bank and local magistrates in Annaba. At the root of the problem were three customs attestations confirming receipt of Mittal goods. The central bank's objection was that Citibank had presented the auditors with three certified copies of the documents, and the central bank insisted on originals. According to Driss, it was difficult to estimate how much time and money he and his staff had spent over the past year sending people to Annaba, paying for hotels, legal fees in Algiers and Annaba, and simply "wasting our time." In the Mittal case, Driss was threatened with two years in prison and a USD 60 million fine -- a phenomenon Dupuch confirmed as "standard, unfortunately."

¶6. (C) Driss confided that Citibank is currently involved in a similar customs dispute in Algiers, this time facing another potential two-year prison sentence and a whopping USD 800 million fine. Neither he nor Dupuch, who said his BNP has faced similar excessive scrutiny, believed that these penalties would ever be levied, but the process the auditors are dragging the banks through "makes work almost impossible." If the central bank knew how to audit, Dupuch said, "we could understand," going on to say he had never

seen anything like this in any other country in which he has worked as a banker.

FRUSTRATION ALSO ON THE INSIDE

17. (C) Kemal Badsî, one of our senior contacts at the central bank, was recently appointed to the National Banking Commission -- a body Badsî himself describes as consisting of well-intentioned people "with no banking experience" other than his own. Badsî told us in March that the banking sector in Algeria was not as prepared to accept a U.S. Treasury technical assistance program on leasing as he had expected. He asked us instead for assistance on how to "resolve problem banks," referring to the Khalifa and subsequent scandals in the sector. Badsî, one of our most progressive-minded contacts in the financial sector, shook his head and said that Algerian magistrates "understand nothing about how to deal with banks." Governor Laksaci, believed by many to have gotten off easy for perceived but unproven regulatory and ethical lapses that allowed the Khalifa scandal to occur, was approached for assistance by several bank presidents, according to Driss and Dupuch. According to them, Laksaci said there was nothing he could do to restrain his auditors, and that a more effective avenue of engagement would be for the bank presidents to "speak to members of parliament about changing the law." Driss repeated that "no bank" has a problem with the law itself. But he echoed Badsî's remark about the courts in saying, "they have no idea and no training on how to deal with us."

COMMENT: GOOD INTENTIONS, DESTRUCTIVE ACTIONS

18. (C) What we have heard from our contacts at the central bank and in the banking sector itself paints a picture of an industry struggling to break free from a police mentality embodied by untrained auditors and a judiciary with little

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experience in how to regulate a modern bank. The very fact that banks must be present and are held responsible for customs transactions is, according to Driss and Dupuch, slowing down work dramatically. That being said, nobody we spoke with doubted the need for serious measures to regulate and manage risk at Algeria's banks, particularly in the wake of the Khalifa and other more recent scandals. The problem, as explained by Badsî, is how the central bank goes about it.

Driven by an instinct to criminalize even the most minute discrepancies, it is currently carrying out its work in a way that neither allows existing banks to get their work done nor encourages foreign banks to enter Algeria. In this context, the Japanese ambassador told us on March 24 that it was now more important than ever for Algeria to privatize "just one bank" to avoid allowing the perception of scandal and a hostile regulatory environment to suffocate investor confidence.

DAUGHTON